

Specialty Steel Company



Koji Sato
President of the Specialty Steel Company

Basic policy of Medium-Term Management Plan

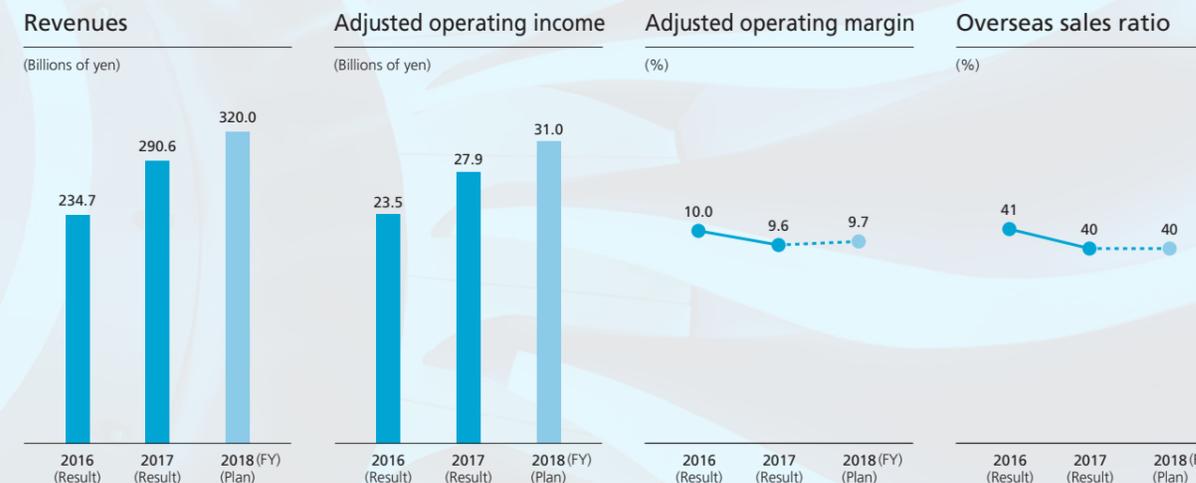
Achieve growth internationally by focusing on "special" steel

Monozukuri: Carry out "eye-opening" manufacturing

Sales capabilities: Further enhance strength

- Reap the benefits of major investments

Progress vis-à-vis numerical targets



Business progress relative to Medium-Term Management Plan

Market environment and business overview

With tighter environmental regulations and increased demand for energy conservation, demand for environmentally conscious products is growing, and significant growth is forecast going forward.

Against this backdrop, both sales and profit grew in fiscal 2017, primarily on increased demand for molds and tool steel, materials for industrial equipment, and electronic materials. Results were at record levels, even excluding the effect of the business reorganization. In particular, there was large growth in demand for lead frame materials, organic EL-related components and materials, and cladding materials. In addition, flexibility in production structures that allowed us to shift from molds and tool steel to materials for industrial equipment and electronic materials enabled us to maximize total marginal profit at the Yasugi Works.

Going forward, we will pursue global growth by focusing on "special steel," strengthening *monozukuri* and sales capabilities, and making large-scale capital expenditures under the slogan "Transforming changes into opportunities!"

Individual businesses Molds and tool steel

To achieve global growth, we are building heat-treatment and processing service structures at country and regional levels, and developing and increasing sales of new products. A 10,000-ton forging press has begun operating at the Yasugi Works, strengthening our capability to handle larger aluminum die-cast molds. We are also increasing our production volumes for new types of steel including SLD-[®] cold-worked die steel.

Materials for industrial equipment

Even with the accelerating shift to EVs, we expect internal combustion engine-related demand to grow. Sales of high-performance internal combustion engine-related components and materials, including piston ring materials, CVT belt materials, and turbine wheels grew in fiscal 2017. We intend to increase sales of these high-performance internal combustion engine-related components and materials going forward, while also working to develop new products and markets to increase sales of non-internal-combustion engine-related components and materials, for growth in all industrial sectors.

Electronic materials

The merger of SH Copper Products Co., Ltd., and Hitachi Metals Neomaterial, Ltd. was completed in April 2018, strengthening our supply and sales structure for battery-related materials, organic EL-related components and materials, smartphone components and materials, and semiconductor components and materials. We are also investing ¥20 billion to increase production capacity, in stages to be completed in the first half of fiscal 2019. Through these initiatives, we are working for growth through increased sales for a variety of applications for high-performance electronic materials, including organic EL-related components and materials that are growing rapidly.

Aircraft/energy-related materials

We have made large-scale investments to increase production capability of aircraft/energy-related materials at three locations: a 24-ton vacuum induction melting and casting (VIM) furnace and a high-speed radial forging machine at the

Yasugi Works; an 840-ton ring mill at the Okegawa Works (established in April 2018 through the merger with Hitachi Metals MMC Superalloy, Ltd.), and a 50,000-ton die forging press at Japan Aeroforge, Ltd. By realizing synergies of three locations, we will obtain certification and proceed to mass production. We are aiming to generate sales of ¥60 billion by fiscal 2025 through leveraging our innovative technologies at a global level.

Soft magnetic components and materials

To address rapid market growth, we are transitioning to become a power electronics materials innovator. Specifically, we established a new Power Electronics Business Promotion Office in April 2018 to generate combined growth in soft magnetic components and materials and the ceramics business. Keeping up with the speed of market needs, we are addressing trends toward increased energy efficiency and more advanced telecommunications.

External risks

We have begun applying a surcharge system, which includes secondary materials, to address the jump in prices for raw materials and secondary materials. With the automobile market experiencing slower growth in the internal combustion engine market and delays in the development of the EV market, we are expanding the scope of our non-internal-combustion engine-related business and cultivating new businesses including powders for 3D printers.

Internal risks

With regard to insufficient melting capacity, we are verifying

trends in demand and considering increasing capacity, including through changes in our product portfolio. We also plan to diversify to reduce the risks related to our reliance on products like electronic materials with short life cycles.

Implementing a global growth strategy for sustainable business expansion

